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No.

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1996

GENENTECH, INC.,

*Petitioner,*

vs.

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,

*Respondent.*

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

## PETITION FOR A WRIT OF CERTIORARI

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## QUESTIONS PRESENTED

1. In determining the scope and operation of the "community of interest" doctrine, did the Federal Circuit substantially alter the traditional "identical legal interest" standard first articulated more than twenty years ago in *Duplan Corp.* v. *Deering Milliken, Inc.*, 397 F. Supp. 1146, 1172 (D.S.C. 1975) and applied thereafter by the majority of District Courts that have considered the issue?

2. Is the standard adopted by the Federal Circuit in conflict with Seventh Circuit law governing the community of interest doctrine?

3. Did the Federal Circuit err in granting a writ of mandamus without giving substantial deference to the detailed factual findings of the District Court?

4. Did the Federal Circuit err in applying the community of interest doctrine to avoid waiver of the attorney-client privilege and work product immunity in circumstances where, as the District Court correctly found: (i) a patent applicant divulged privileged information to an optionee for a non-exclusive license of such patent; (ii) the optionee might not exercise the option; (iii) the optionee threatened to abandon the option unless the patent applicant agreed to material changes; (iv) an exclusive license agreement between the parties was not executed until more than ten years after the option for a non-exclusive license was first granted; (v) the terms of the license were materially different from the terms of the option; (vi) at most, the optionee had a proprietary and commercial interest in the patent applications, but not a legal interest; and (vii) the communications were not in anticipation of litigation or in furtherance of a joint plan to avoid litigation?

## PARTIES TO THE PROCEEDING

Petitioner is Genentech, Inc. Roche Holdings Inc.("Roche") owns approximately 66% of the issued shares of Genentech; however, Genentech remains an independent, publicly - traded company and continues to operate entirely independently of Roche. Roche has an option to acquire the remaining shares of Genentech.

Respondent is The Regents of the University of California ("UC"), owner of the patent-in-suit, United States Patent No. 4,363,877 (the '877 patent). Eli Lilly and Company ("Lilly"), the exclusive licensee for the '877 patent, was a party to this action. However, Genentech and Lilly have settled their claims and counterclaims in this action.

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## PETITION FOR A WRIT OF CERTIORARI

Petitioner respectfully petitions for a writ of certiorari to review a decision of the United States Court of Appeals for the Federal Circuit granting UC's Petition for Writ of Mandamus.

### OPINIONS BELOW

The opinion and order of the court of appeals is reported at 101 F.3d 1386 (Fed. Cir. 1996). (Appendix A). The Entry of the District Court dated July 2, 1996 (Appendix B) is unreported.

## JURISDICTION

The opinion and order of the court of appeals granting UC's petition for writ of mandamus was issued on November 14, 1997. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

## CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

There are no constitutional or statutory provisions involved in this petition. At issue here is the "community of interest" doctrine, a doctrine that has been developed under Federal and State common law.

## STATEMENT OF THE CASE

### A. Genentech's Request For Discovery Concerning the '877 Patent, Related Patents and Their Foreign Counterparts

This is a patent infringement case. UC asserts that Genentech infringes United States Patent No. 4,363,877 (the '877 patent). Genentech claims that the patent was procured through inequitable conduct and is otherwise invalid, unenforceable and not infringed. Genentech sought discovery concerning the applications for the '877 patent, related patents, and their foreign counterparts. UC objected to providing substantial portions of the documents and testimony requested by Genentech on the ground that such documents and information were immune from disclosure under the attorney-client privilege and work product immunity. UC further asserted that the community of interest doctrine operated to avoid waiver even where UC had shared privileged information relating to its patent applications with Lilly.

## B. The Relationships Among Lilly, UC and Genentech

Since 1978, Lilly's rights under Genentech patents were in conflict with the interests of UC. On or about August 26, 1978, Genentech and Lilly entered into an agreement (the "Insulin Agreement") (Resp. Ex. 4)[1] pursuant to which (a) Lilly provided funding in support of Genentech's research and undertook to pay future royalties to Genentech based on sales of recombinant insulin (*Id.* Art. III, VIII), and (b) Lilly obtained rights to use Genentech inventions, including the technology described in the so-called "Itakura-Riggs" patents and patent applications,[2] for purposes of developing, marketing and selling a recombinant insulin product. (*Id.* §§ 4.01, 6.01). Genentech contends that these same Itakura-Riggs disclosures constitute material prior art which anticipate and/or render obvious the claims of the '877 patent, and that UC intentionally withheld this prior art from the examiner during prosecution of the application for the subject '877 patent.

Lilly agreed to pay the costs for prosecuting foreign patent applications relating to the project with Genentech, *including the Itakura-Riggs patent applications* that are at issue in this case. Thus, since 1978, Lilly has held exclusive rights to practice in the field of insulin under the Itakura-Riggs inventions. Because Lilly indisputably has utilized such technology in manufacturing its insulin product, at all times since 1978 Lilly has shared a common interest with Genentech in sustaining the validity and enforceability of the United States and foreign patents that issued based on such Itakura-Riggs disclosures.

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[1] As used herein "Resp. Ex." refers to exhibits to Respondant's Brief in Opposition to UC's Petition for Writ of Mandamus. "Pet. Ex." refers to exhibits to Petitioner's Brief.

[2] The Itakura-Riggs patent disclosures are embodied in, *inter alia*, U.S. Patent No. 4,356,270 and published European Patent Application Numbers 1929 (EPA 1929), published on May 17, 1979 and 1930 (EPA 1930), published on May 16, 1979.

On September 12, 1978, eighteen days after Genentech and Lilly entered into the Insulin Agreement, UC and Lilly entered into an Option Agreement (the "Option Agreement") pursuant to which UC granted to Lilly an exclusive option for a period of three years (or until Lilly's first commercial use of the technology) to acquire a *nonexclusive* license to use certain UC technology that had already been developed through governmental funding, including rights in the application for the subject '877 patent. (Pet. Ex. 6).

Without explanation, and in direct contradiction to the factual findings of the District Court, the Federal Circuit incorrectly characterized this Option Agreement as being indicative of "more than a non-exclusive" licensing arrangement. 101 F.3d at 1390. However, as the District Court correctly recognized, at most, the Option Agreement provided Lilly with non-exclusive licensing rights. The District Court found that as of 1978 any patents arising from the research funded by the United States government were to be licensed on a nonexclusive basis. (Pet. Ex. 1 at 3). Further, the District Court found that the Option Agreement provided that any license agreement granted under it would be subject to such governmental limitations. (*Id.*). In any event, if Lilly exercised its option, Lilly would be obligated to grant sublicenses to qualified applicants. Thus, as the District Court found, there can be no serious question that the Option Agreement reflected, at most, a non-exclusive license arrangement between UC and Lilly.

Pursuant to Article 2 of the Option Agreement, Lilly agreed to underwrite the cost of foreign patent applications for UC in certain specified countries. (Pet. Ex. 6, § 2.1). In the event Lilly exercised the option, UC would be entitled to royalties, but Lilly's royalty obligations were to be reduced by the amount it expended for patent prosecution costs (less $60,000). (*Id.*, § 2.2). Lilly further agreed that, if it exercised its option, it would pay UC's out-of-pocket costs for prosecuting the corresponding United States patent applications. (*Id.*, § 4.2).

The parties have disputed whether Lilly ever exercised its option under the Option Agreement. UC's position has not been consistent. However, UC apparently denies that Lilly exercised its option prior to the expiration of the term of the 1978 Option Agreement, or prior to the execution of the license agreement in 1989.[3]

The '877 patent issued on December 14, 1982. The undisputed evidence before the District Court established that (a) by March 31, 1987, Lilly had informed UC that it wanted an exclusive license for the '877 patent, (b) by March 31, 1987, Lilly had informed UC that if UC could not grant it an exclusive license, it would be willing to pay a royalty of only 1%, which was at least a 66% reduction from the royalty provided in the Option Agreement, and (c) Lilly wanted UC to obtain a waiver of the government's non-exclusive licensing requirement, thereby eliminating Lilly's obligation under the Option Agreement to grant sublicenses to qualified licensees. (Pet. Ex. 5).

In 1987, UC applied to the United States Government for a waiver of its nonexclusive licensing obligation. (Pet. Ex. 58). It was only after UC successfully obtained such a waiver that Lilly and UC were able to successfully negotiate an exclusive license agreement, which was executed on March 27, 1989 (the "1989 License Agreement"). (Pet. Ex. 59). Thus, after protracted negotiations with UC, Lilly first acquired rights to practice under the '877 patent pursuant to the 1989 License Agreement, and until that agreement was finalized, it was by no means certain that Lilly would ever acquire any rights to practice under the patent, much less exclusive rights. Moreover, although Lilly had rights beginning in 1978 to practice under competing Genentech patents (including

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[3] Had Lilly exercised the option, certain royalty obligations of Genentech to UC under an Agreement dated June 30, 1980 would have been reduced by $500,000. UC repeatedly--as late as March 16, 1988--informed Genentech that Lilly had not exercised the option, and therefore that there was no basis for such a royalty reduction.

Itakura-Riggs), Lilly never acquired rights to practice under any of UC's other related patents.

Beginning in 1979 and for a number of years prior to the execution of the 1989 License Agreement, UC prosecuted domestic and foreign patent applications related to the '877 patent application. Initially UC's patent counsel handled such applications, but consulted with Lilly attorneys and disclosed to Lilly attorneys otherwise confidential information relating to such applications. Beginning in or about 1984, at UC's request, and with UC's knowledge and consent, Lilly in-house counsel became more directly involved in the prosecution of UC foreign patent applications and in providing instructions to UC's foreign patent associates (Resp. Ex. 11). However, Lilly in-house attorneys Drs. Sparrow and Levy unequivocally testified that, at all relevant times, they viewed their client as Lilly, and not UC. (Resp. Ex. 10).

During the entire relevant time period, Lilly's concurrent interest in the competing Itakura-Riggs (Genentech) patent applications prevented Lilly from ever having an identical interest with UC. Indeed, Lilly's interest always has been potentially adverse to UC[4], and, ultimately, Lilly's position became actually adverse to UC in the so-called Proinsulin litigation, a case that was tried in 1995. *The Regents of University of California v. Eli Lilly & Co.*, 39 U.S.P.Q.2d (BNA) 1225 (S.D. Ind. 1995), *appeal pending*. In 1992, the Proinsulin case was consolidated with the present case and four others into a multi-district proceeding. *See*, *In re Recombinant DNA Technology Patent and Contract Litigation*, Docket No. 912 (J.P.M.L. Feb. 19, 1992), *aff'd*, *In re Regents of the University of Cal.*, 964 F.2d 1128 (Fed. Cir. 1992); *In re Recombinant DNA Technology Patent and Contract Litig.*, Docket No. 912 (J.P.M.L. Oct. 1, 1993)

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[4] As an example of the magnitude of the potential conflict, Lilly attorney Sparrow testified that one of UC's foreign associates, A.J. Park & Sons (in New Zealand), also concurrently served as Genentech's foreign patent counsel in connection with the competing Itakura-Riggs patent application in New Zealand. (Resp. Ex. 12).

### C. Proceedings In the District Court

On March 22, 1996, Genentech filed a motion in the United States District Court for the Southern District of Indiana to compel testimony (and other discovery) and to overrule UC's objections based on the community of interest doctrine. In an Entry dated July 2, 1996, the District Court granted Genentech's motion. Applying Seventh Circuit law (the law of the regional circuit) and adhering to the well-established and traditional "identical legal interest" standard, the Court held that UC had waived its attorney-client privilege and work product immunity when it shared privileged information with Lilly during prosecution of UC's patent applications, including the application for the patent-in-suit. The Court reasoned that UC and Lilly did not share an identical legal interest during the relevant time period because at most Lilly had an option for a *non-exclusive* license, Lilly remained free to walk away from the option agreement at any time, and "in the context of the subject option agreement, UC and Lilly's shared interests were only proprietary". The District Court further found that UC's objections were deficient because UC and Lilly had not shared privileged information in anticipation of litigation or as part of a joint plan to avoid litigation.

### D. UC's Petition for a Writ of Mandamus

On July 17, 1996, UC petitioned the Federal Circuit for a Writ of Mandamus. On November 14, 1996, the Federal Circuit granted UC's petition. With virtually no explanation, the Federal Circuit summarily rejected the factual findings of the District Court concerning the nature of the relationship between UC and Lilly. Moreover, although the Federal Circuit purported to apply Seventh Circuit law, it substantially modified it. In this regard, the Federal Circuit replaced the traditional strict "identical legal interest" doctrine with a more flexible "substantially identical legal interest" standard. Even more importantly, the Federal Circuit purported to eliminate the well-established rule in the Seventh Circuit and elsewhere that the community of interest doctrine operates to avoid waiver only for communications made in anticipation of

litigation or as part of a joint plan to avoid litigation. Thus, while the Federal Circuit purported to apply the law of the regional circuit, its opinion represented a drastic departure from the traditional community of interest doctrine as applied by Courts within the Seventh Circuit, and indeed, throughout the country.

## REASONS FOR GRANTING THE PETITION

This is a case of substantial public importance because it gives the Court an opportunity to clarify a significant doctrine of privilege, and to remedy the Federal Circuit's improper and improvident use of its power to grant extraordinary writs.

The community of interest doctrine, which arises out of federal and state common law, substantially expands and, in appropriate cases, protects the attorney-client privilege and work product immunity. Prior to the decision of the Federal Circuit, the federal courts (including the courts within the Seventh Circuit) had consistently used a strict test in applying the community of interest doctrine. The decision of the Federal Circuit, while purporting to apply Seventh Circuit Law, failed to afford appropriate deference to the legal conclusions of the district court and substantially departed from preexisting precedent and from the Seventh Circuit standard. In granting the extraordinary relief of a writ of mandamus, the Federal Circuit also ignored the district court's factual determinations and thereby misused its power. Finally, the abuse of authority by the Federal Circuit has caused substantial and unfair prejudice to Genentech, and, ultimately, has improperly interfered with the search for truth.

The errors of the Federal Circuit are manifest. They include the following:

1. The Federal Circuit failed to provide appropriate deference to the District Court's determination of the applicable law.

The context of the Federal Circuit's decision was UC's petition for writ of mandamus. In order to obtain an extraordinary writ, UC had the burden of establishing that the

District Court committed "clear and indisputable" error in selecting the applicable rule of law and in exercising its discretion to regulate discovery and adjudicate claims of privilege. *Allied Chem. Corp.* v. *Daiflon, Inc.*, 449 U.S. 33, 34 (1980); *In re Cordis Corp.*, 769 F.2d 733, 736 (Fed. Cir.), *cert. denied*, 474 U.S. 851 (1985). Indeed, mandamus was appropriate only if no rational and substantial legal argument could be made in support of the rule of law in question, even though on normal appeal a court might find reversible error. *Id.*

However, the Federal Circuit made no effort to consider whether there was a rational and substantial basis for the rule of law selected by the district court. Even more troubling, the Federal Circuit used the occasion of UC's mandamus petition to create a drastic departure from the well-established law in the lower courts.

The Federal Circuit erred in failing to recognize that there was a rational and substantial basis for the rule of law selected by the District Court. As the Federal Circuit recognized, the District Court correctly looked to the law of the regional circuit to determine the legal standard applicable to this case. *See*, *Panduit Corp.* v. *All States Plastic Mfg. Co., Inc.*, 744 F.2d 1564 (Fed. Cir. 1984). To determine applicable Seventh Circuit law, the District Court reviewed rulings of the other District Courts within the Seventh Circuit and the leading cases outside of the Seventh Circuit. Mindful of the Seventh Circuit's admonition in *United States* v. *Lawless*, 709 F.2d 485, 487 (7th Cir. 1983), that the attorney-client privilege should be narrowly construed, the District Court agreed with several other District Courts within the Seventh Circuit which had reasonably determined that the Seventh Circuit would probably adhere to the traditional legal standard first enunciated in *Duplan*, 397 F. Supp. at 1172. In *Duplan*, which had been considered throughout the federal court system as a leading case concerning the community of interest doctrine, the court held that the community of interest doctrine requires that the persons or entities involved in the communication have an "identical legal interest" concerning the communication, and that the communication occurred in anticipation of

litigation. In determining that Courts within the Seventh Circuit would likely follow the traditional *Duplan* standard, the District Court reasonably stated as follows:

> Although some courts have expanded the community of interest doctrine to reach communications not meeting the stringent standard enunciated in *Duplan*, yet we are mindful of the Seventh Circuit's admonition that "[t]he scope of the privilege should be 'strictly confined within the narrowest possible limits.'" *United States* v. *Lawless*, 709 F.2d 485, 487 (7th Cir. 1983) (quoting 8 Wigmore, Evidence § 2291 (McNaughton rev. 1961) (further citations omitted. In view of this guidance, we adhere to the *Duplan* standard. *See Oak Indus* v. *Zenith Indus.*, 1988 WL 79614 (N.D. Ill. July 27, 1988).

(Appendix B at 5). Indeed, there can be no serious question that the District Court faithfully and reasonably adhered to the rule of law applied by every District Court within the Seventh Circuit to consider the issue. *See, e.g., Edward Lowe Indus., Inc.* v. *Oil-Dri Corp. of Am.*, 1995 WL 410979 (N.D. Ill. 1995); *Medcom Holding Co.* v. *Baxter Travenol Labs., Inc.*, 689 F. Supp. 841, 844-846 (N.D. Ill. 1988); *Allendale Mut. Ins.* v. *Bull Data Sys., Inc.*, 152 F.R.D. 132, 140 (N.D. Ill. 1993); *Graco Children's Products, Inc.* v. *Dressler, Goldsmith, Shore & Milnamow, Ltd.*, 1995 WL 360590 (N.D. Ill. 1995); *Oak Indus.* v. *Zenith Indus.*, 1988 WL 79614 (N.D. Ill. 1988). In such circumstances, it was clear that the District Court had a substantial and rational basis for the rule of law which it selected.

However, the Federal Circuit's opinion does not even address the issue of whether the District Court had a rational and substantial basis for its legal analysis. Had the Federal Circuit considered this matter, it could have granted UC's petition for a writ of mandamus only if it disagreed with every district court judge in the Seventh Circuit to have previously considered the issue, and, indeed, numerous other district court judges throughout the United States. For this reason alone, it

was clear error for the Federal Circuit to grant UC's petition for mandamus.

2. The Federal Circuit compounded this error by purporting to follow the law of the regional circuit, when, in fact, it did not do so. As the District Court correctly found, within the Seventh Circuit, and indeed, in the vast majority of District Courts throughout the United States, it was well-established that the community of interest doctrine operates to avoid waiver only (a) when the underlying communications themselves are privileged, (b) where the parties have an *identical legal interest*, and not a mere common commercial interest, with respect to the subject matter of the privileged communications or documents which were disclosed, and (c) where the identical legal interest arises out of impending or anticipated litigation or a joint effort to avoid litigation. *See*, *Edward Lowe Indus., Inc.* v. *Oil-Dri Corp. of Am.*, 1995 WL 410979, *1, *3 (N.D. Ill. 1995); *Anderson* v. *Torrington Co.*, 120 F.R.D. 82 (N.D. Ind. 1987); *Baxter Travenol Labs, Inc.* v. *Abbott Labs.*, 1987 WL 12919 (N.D. Ill. 1987); *Graco Children's Products, Inc.* v. *Dressler, Goldsmith, Shore & Milanamow, Ltd.*, 1995 WL 360590 (N.D. Ill. 1995); *Medcom Holding Co.* v. *Baxter Travenol Labs., Inc.*, 689 F. Supp. 841 (N.D. Ill. 1988); *Oak Indus.* v. *Zenith Indus.*, 1988 WL 79614 (N.D. Ill. 1988). This same standard has been applied by the vast majority of District Courts throughout the United States. *See*, *e.g.*, *Duplan Corp.* v. *Deering Milliken, Inc.*, 397 F. Supp. 1146, 1172 (D.C.S.C. 1974); *Bank Brussels Lambert* v. *Credit Lyonnais (Suisse) S.A.*, 160 F.R.D. 437, 447 (S.D.N.Y. 1995); *but see*, *Hewlett-Packard, Co.* v. *Baush & Lomb, Inc.*, 115 F.R.D. 308 (N.D. Cal. 1987); *Raymon* v. *American Charter Fed. Sav. & Loan Ass'n*, 148 F.R.D. 647 (D. Neb. 1993).[5]

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[5] As evidenced by *Hewlett-Packard Co.* and *Raymon*, a very small group of courts have held that the community of interest doctrine operates to avoid waiver where disclosures of privileged information were made during contract negotiations, and where the disclosures were made in anticipation of litigation in which the parties to the negotiations were

*(Footnote continued)*

Instead of faithfully applying the law of the regional (Seventh) Circuit, the Federal Circuit departed from the traditional community of interest doctrine in two respects: First, the strict "identical" legal interest test was replaced with a more flexible "substantially identical legal interest" standard. Second, the Federal Circuit swept away the traditional "in anticipation of litigation" requirement which had always before been viewed as a critical limitation on the scope of the community of interest doctrine.

Such a departure from traditional legal doctrine is unsound and unwise. The attorney-client privilege and work product immunity operate as an impediment to the truth finding process. The community of interest doctrine, if not appropriately limited in scope, would represent a potentially drastic expansion of the scope of these privileges and immunities. Thus, as the lower federal courts have developed this doctrine, they have wisely and appropriately applied it narrowly.

Although clients should be encouraged to speak freely with, and disclose information in confidence to, their attorneys, the attorney-client privilege should not be expanded so as to shield from disclosure the substance of commercial dealings between the parties which have potentially or actually conflicting interests.

3. The Federal Circuit compounded its legal errors by failing to give appropriate deference to the fact findings of the District Court.

Nowhere in the Federal Circuit's opinion is there an explanation as to why the District Court committed clear error in exercising its discretion to determine the facts relevant to the instant dispute. *See*, *In Re Ethicon, Inc.*, 991 F.2d 810 (Fed. Cir. 1993) ("Where a matter is committed to a trial court's

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expected to have a common interest following successful completion of such negotiations. Even these decisions adhere to the "in anticipation of litigation" requirement of the traditional community of interest doctrine, a requirement that the Federal Circuit has inexplicably swept aside.

discretion, a petitioner has an almost insurmountable burden of showing that mandamus should be granted"). Indeed, in its zeal to depart from well-settled legal doctrine, the Federal Circuit essentially ignored without explanation the specific and detailed factual findings of the District Court. This resulted in a monumental factual blunder by the Federal Circuit insofar as it held that "Lilly was more than a non-exclusive licensee. . . ." 101 F.2d at 1390.

This finding of the Federal Circuit was inaccurate and and resulted directly from the Federal Circuit's disregard for the reasonable factual findings of the District Court. To the contrary, the District Court reasonably and appropriately found that:

1. The Option Agreement provided Lilly with at most a non-exclusive license of the '877 patent. Especially in view of then-existing governmental policies, the Lilly-UC relationship was not "more than a non-exclusive licensing" arrangement.

2. Government policy at the time of the Option Agreement, as incorporated into the Option Agreement required that UC's patents derived from federally funded research be licensed on a non-exclusive basis. Until the government granted UC's 1987 application for a waiver of the nonexclusive licensing requirement, Lilly had only an option to license the subject technology nonexclusively. Yet substantially all of the communications between UC and Lilly at issue occurred before this 1987 waiver was obtained, and even then it took UC and Lilly nearly two years to negotiate the terms of a formal license agreement.

3. The Option Agreement provided that Lilly could walk away from the agreement at any time and did not suggest that, in the event a patent issued, Lilly would have any responsibility for filing suit against alleged infringers.

4. In the context of the Option Agreement, UC and Lilly's shared interests in the patents were only proprietary, and not legal.

5. Lilly did not obtain an exclusive license for the '877 patent until 1989, after protracted negotiations with UC for such a license agreement.

On UC's petition for mandamus, the Federal Circuit could legitimately overturn these factual findings of the District Court only if there was clear and indisputable error. Yet its opinion is devoid of any discussion of whether the detailed factual findings of the District Court were clearly erroneous. Therefore, the Federal Circuit abused its appellate authority when it summarily rejected the factual findings of the District Court, which had substantial record support.

Disputes over the fact findings of lower courts rarely provide a sufficient basis for granting a writ of certiorari, but the issue here does not merely concern fact finding. The issue is whether the Federal Circuit abused its power and authority in issuing the writ without articulating any rational or substantial basis for rejecting the factual findings of the lower court.

The Federal Circuit's abuse of its appellate authority presents a matter of special importance for this Court's consideration-- whether in reviewing a petition for writ of mandamus, the Federal Circuit should conduct a *de novo* review of both the legal and factual determinations of the district court, placing itself, in effect, in the position of a super trial court. Such appellate second-guessing of the reasonable legal and factual findings of the district court diminishes the authority of the district courts and threatens the integrity of district court proceedings. Moreover, such abuse of appellate authority results in improper utilization of the writ of mandamus, a development which will undoubtedly invite a plethora of baseless and unwarranted mandamus petitions, resulting in a substantially increased burden on appellate courts.

## CONCLUSION

This is one of the rare cases in which a writ of certiorari should be granted. As a result of the Federal Circuit's recent drastic departure from the traditional community of interest doctrine, there is now a fundamental disagreement among the lower courts that is ripe for resolution by this Court. Perhaps more importantly, however, this case provides this Court with a rare opportunity to correct a clear abuse of appellate authority by the Federal Circuit, and in so doing, to confirm the appropriate level of deference owing the factual and legal interlocutory rulings of district courts.

Dated: February 11, 1997

Respectfully submitted

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# APPENDIX

## APPENDIX A

101 F.3d 1386
65 USLW 2337, 114 Ed. Law Rep. 780, 40 U.S.P.Q.2d 1784
**(Cite as: 101 F.3d 1386)**

**In re the REGENTS OF the UNIVERSITY OF CALIFORNIA, Petitioner.**

Miscellaneous No. 471.

United States Court of Appeals,
Federal Circuit.

Nov. 14, 1996.

University petitioned for writ of mandamus, seeking vacation of discovery order entered in multidistrict patent litigation. The Court of Appeals, Pauline Newman, Circuit Judge, held that university that had applied for patent and optionee/licensee had requisite common interest for attorney-client privilege to attach to communications between university and attorneys for optionee/licensee.

Writ granted.

**[1] MANDAMUS k53**
**250k53**
Judicial orders may be overturned by extraordinary writ only when there has been clear abuse of discretion or usurpation of judicial authority in grant or denial of order.

**[2] MANDAMUS k168(2)**
250k168(2)
Petitioner has burden of establishing its right to issuance of extraordinary writ is clear and undisputable, and that it lacks adequate alternative means to obtain relief sought.

**[3] MANDAMUS k40**
250k40
Writ of mandamus may be sought to prevent wrongful exposure of privileged communications.

**[4] MANDAMUS k32**
250k32
Remand of remaining action to district court in multidistrict patent litigation did not deprive Court of Appeals of jurisdiction over mandamus petition challenging discovery order, where discovery to which petition was directed was applicable regardless of whether consolidation of pretrial procedures was otherwise terminated, and completion of challenged discovery was stayed pending appeal.

**[5] WITNESSES k199(2)**
410k199(2)
University that had applied for patent and optionee/licensee had requisite common interest for attorney-client privilege to attach to communications between university and attorneys for optionee/licensee; optionee/licensee's attorneys received confidential information from university and gave legal advice to university, and both university and optionee/licensee had interest in obtaining valid and enforceable patents.

**[6] WITNESSES k199(2)**
410k199(2)
When same attorney represents interests of two or more entities on same matter, those represented are viewed as joint clients for purposes of attorney-client privilege.

**[7] WITNESSES k201(1)**
410k201(1)
Attorney-client privilege is not limited to actions taken and advice obtained in shadow of litigation.

**[8] WITNESSES k199(2)**
410k199(2)
When prelitigation advice and assistance serves shared legal interest, parties to that interest do not lose attorney-client privilege when litigation arises.

**[9] WITNESSES k201(1)**
410k201(1)
Consultation with counsel during patent prosecution meets criteria of compliance with law in meeting legal requirements,

thereby reducing or avoiding litigation, and is within scope of subject matter that is subject to attorney-client privilege.

**[10] WITNESSES k199(2)**
410k199(2)
Joint client doctrine and community of interest doctrine apply to and protect legal advice and communications between patent applicant or patentee and attorneys of its optionee/licensee.

***1387** Gerald P. Dodson, Arnold, White & Durkee, Menlo Park, CA, submitted the petition for writ of mandamus for petitioner. With him on the petition were Emily A. Evans and Karen J. Kramer. Also with him on the petition was P. Martin Simpson, Jr., The University of California, Office of Technology Transfer, Alameda, CA.

John E. Kidd, Rogers & Wells, New York City, submitted the response to the petition for writ of mandamus for respondent Genentech, Inc. Of counsel was Joseph Ferraro.

Donald R. Dunner, Finnegan, Henderson, Farabow, Garrett & Dunner, L.L.P., Washington, DC, submitted the response to the petition for writ of mandamus for respondent Eli Lilly and Company. Of counsel were Howard W. Levine and Charles E. Lipsey.

Before NEWMAN, Circuit Judge, SKELTON, Senior Circuit Judge, and LOURIE, Circuit Judge.

**ORDER**

PAULINE NEWMAN, Circuit Judge.

The Regents of the University of California ("UC") petition for a writ of mandamus to the United States District Court for the Southern District of Indiana, to vacate the court's July 2, 1996 order[1] granting Genentech, Inc.'s motion to compel the

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[1] Genentech, Inc. v. The Regents of the University of California, MDL Docket No. 912, IP-90-1679-C-D/G (S.D.Ind. July 2, 1996).

deposition testimony of three attorneys employed by Eli Lilly and Company.

[1][2] Judicial orders may be overturned by extraordinary writ only when there has been a clear abuse of discretion or usurpation of judicial authority in the grant or denial of the order. In re The Regents of the University of California, 964 F.2d 1128, 1135, 22 USPQ2d 1748, 1754 (Fed.Cir.1992). See Gulfstream Aerospace Corp. v. Mayacamas Corp., 485 U.S. 271, 289, 108 S.Ct. 1133, 1143, 99 L.Ed.2d 296 (1988) ("The federal courts traditionally have used the writ only 'to confine an inferior court to a lawful exercise of its prescribed jurisdiction or to compel it to exercise its authority when it is its duty to do so.'") (quoting Roche v. Evaporated Milk Ass'n, 319 U.S. 21, 26, 63 S.Ct. 938, 941, 87 L.Ed. 1185 (1943)); In re Calmar, Inc., 854 F.2d 461, 464 (Fed.Cir.1988) ("Mandamus may be employed in exceptional circumstances to correct a clear abuse of discretion or usurpation of judicial power by a trial court.") The petitioner has the burden of establishing that its right to issuance of the writ is clear and indisputable, Allied Chem. Corp. v. Daiflon, Inc., 449 U.S. 33, 35, 101 S.Ct. 188, 190, 66 L.Ed.2d 193 (1980), and that it lacks adequate alternative means to obtain the relief sought. Mallard v. United States District Court, 490 U.S. 296, 309, 109 S.Ct. 1814, 1822, 104 L.Ed.2d 318 (1989).

[3] Genentech argues that discovery orders are not routinely appealable. However, the issue before us is not a routine discovery dispute, but one of attorney-client privilege. A writ of mandamus may be sought to prevent the wrongful exposure of privileged communications. As stated in Harper & Row Publishers, Inc. v. Decker, 423 F.2d 487, 492 (7th Cir.1970), aff'd per curiam, 400 U.S. 348, 91 S.Ct. 479, 27 L.Ed.2d 433 (1971), "because maintenance of the attorney-client privilege up to its proper limits has substantial importance to the administration of justice, and because an appeal after disclosure of the privileged communication is an inadequate remedy, the extraordinary remedy of mandamus is appropriate." See also, e.g., Rhone- Poulenc Rorer Inc. v. Home Indem. Co., 32 F.3d 851, 861 (3d Cir.1994)

("Mandamus may properly be used as a means of immediate appellate review of orders compelling the disclosure of documents and information ***1388** claimed to be protected from disclosure by privilege or other interests in confidentiality.")

The district court ruled that the attorney-client privilege was waived, or never vested, when the Eli Lilly attorneys provided legal advice and services to UC. This is "not a mere discretionary [ruling] but rather turns on legal questions appropriate for appellate review." In re Burlington Northern, Inc., 822 F.2d 518, 522-23 (5th Cir.1987), cert. denied, 484 U.S. 1007, 108 S.Ct. 701, 98 L.Ed.2d 652 (1988). This case meets the rigorous requirements stated in Chase Manhattan Bank, N.A. v. Turner & Newall, PLC, 964 F.2d 159, 163 (2d Cir.1992), that mandamus review may be granted of discovery orders that turn on claims of privilege when (1) there is raised an important issue of first impression, (2) the privilege would be lost if review were denied until final judgment, and (3) immediate resolution would avoid the development of doctrine that would undermine the privilege. See Schlagenhauf v. Holder, 379 U.S. 104, 110, 85 S.Ct. 234, 238, 13 L.Ed.2d 152 (1964).

This petition arises in connection with consolidated pretrial proceedings in the Southern District of Indiana, established by the Judicial Panel on Multidistrict Litigation in In re Recombinant DNA Technology Patent and Contract Litigation, Docket No. 912 (J.P.M.L. Feb. 19, 1992), aff'd, In re The Regents of the University of California, 964 F.2d 1128, 22 USPQ2d 1748 (Fed.Cir.1992). The proceedings initially involved six cases, concerning various patents, research arrangements, and license agreements among UC, Genentech, and Lilly, in the field of recombinant DNA technology and its use in the production of human insulin and human growth hormone (hGH). Lilly was a party to various of these actions until December 1994, when Lilly and Genentech stipulated to the dismissal with prejudice of all claims against each other.

In the case in which this petition originated Genentech seeks a declaration that UC's United States Patent No.

4,363,877 (the '877 patent) is invalid, unenforceable, or not infringed by Genentech's production of hGH products. Genentech sought the discovery depositions of three Lilly in-house attorneys relating to the prosecution of the '877 patent and its counterparts in foreign countries. The district court ordered the testimony, but stayed completion of this discovery pending this appeal.

[4] Meanwhile, on September 27, 1996 the district court dismissed the declaratory action that had been brought by Genentech (IP-90-1679-C), granting UC's renewed motion for summary judgment on Eleventh Amendment grounds. The district court then requested the Judicial Panel on Multidistrict Litigation to remand the remaining action, IP-92-0223-C, to the Northern District of California for trial. The district court stated that "because the two cases are mirror images, the discovery that has taken place in IP-90-1679-C fully is applicable to IP-92-0223-C." Slip op. at 16. The Multidistrict Panel issued a Conditional Remand Order on October 4, 1996; Genentech states that it has opposed the remand order on the ground that this discovery is incomplete, thus delaying the order's effectiveness, in accordance with Rule 14(f)(ii) of the Panel.

On October 15, 1996 the Federal Circuit ordered UC and Genentech to advise whether this mandamus petition should appropriately be dismissed in view of the district court's action. UC and Genentech are of one mind in opposing dismissal. They point out that the discovery to which this petition is directed is applicable whether or not the consolidation of pre-trial procedures is otherwise terminated, and that completion of the challenged discovery was stayed pending this appeal.

Taking note of the stay in conclusion of the multidistrict proceedings, we agree that we have not been divested of jurisdiction of the petition. For the reasons discussed we grant the writ of mandamus.

## DISCUSSION

On April 19, 1978 UC filed the United States patent application that led to the '877 patent. In September 1978 UC and Lilly entered into an exclusive option agreement for certain license rights to ensuing United States and corresponding foreign patents; ***1389** the license would become exclusive upon certain conditions subsequent. Those conditions did occur and the license became exclusive. Lilly agreed to pay the foreign patent costs, and in 1984 Lilly in-house attorneys assumed direct responsibility for prosecuting the foreign patent applications, in collaboration with UC patent counsel. Genentech is seeking to discover the legal advice that was given and that relates to the United States '877 patent.

According to Genentech, the UC and Lilly attorneys frequently discussed certain prior art, which Genentech alleges is material to the '877 United States patent. Genentech states that testimony about those communications is relevant to the issue of inequitable conduct. Genentech also seeks testimony from a Lilly attorney about his investigation and advice to UC concerning errors in the '877 patent, which led to UC's application for a Certificate of Correction. Genentech states that obtaining the Certificate of Correction also involved inequitable conduct by UC.

Genentech argues that an attorney-client communication is not privileged if it is shared with a third party, and that Lilly was a third party despite its status as optionee/licensee. UC responds that the Lilly attorneys represented both UC and Lilly in a shared effort to obtain these United States and foreign patent rights, and that the communications between UC and the Lilly attorneys were protected by the attorney-client privilege. The district court held that "the UC-Lilly relationship arising from the option agreement created no need for a common defense" because "[t]he entities were prosecuting patents, and at that point, apparently were bound only by the prospects of financial gain and heightened reputation." The district court concluded that UC and Lilly did not share the requisite community of interest to allow UC to invoke

attorney-client privilege as an exception to the general rule favoring full discovery.

**The Community of Interest Doctrine**

[5][6] When the same attorney represents the interests of two or more entities on the same matter, those represented are viewed as joint clients for purposes of privilege. See Simpson v. Motorists Mutual Ins. Co., 494 F.2d 850, 855 (7th Cir.) ("[W]here the same attorney represents two parties having a common interest, and each party communicates with the attorney, the communications are privileged from disclosure at the instance of a third person."), cert. denied, 419 U.S. 901, 95 S.Ct. 184, 42 L.Ed.2d 147 (1974). As explained in Griffith v. Davis, 161 F.R.D. 687, 693 (C.D.Cal.1995), "the joint client doctrine typically has been applied to overcome what would otherwise have constituted a waiver of confidentiality because a communication had been shared between two clients."

The protection of communications among clients and attorneys "allied in a common legal cause" has long been recognized. As one court explained:

> [W]here there is consultation among several clients and their jointly retained counsel, allied in a common legal cause, it may reasonably be inferred that resultant disclosures are intended to be insulated from exposure beyond the confines of the group; that inference, supported by a demonstration that the disclosures would not have been made but for the sake of securing, advancing, or supplying legal representation, will give sufficient force to a subsequent claim to the privilege.

In re Grand Jury Subpoena Duces Tecum, 406 F.Supp. 381, 386 (S.D.N.Y.1975). The issue has previously arisen in connection with patent rights. See, e.g., Baxter Travenol Labs., Inc. v. Abbott Labs., 1987 WL 12919, *1 (N.D.Ill. June 19, 1987) ("A community of legal interests may arise between parties jointly developing patents; they have a common legal

interest in developing the patents to obtain greatest protection and in exploiting the patents."); SCM Corp. v. Xerox Corp., 70 F.R.D. 508, 514 (D.Conn.) ("Whether the legal advice was focused on pending litigation or on developing a patent program that would afford maximum protection, the privilege should not be denied when the common interest is clear."), appeal dismissed, 534 F.2d 1031 (2d Cir.1976).

UC argues that it and Lilly were, in the circumstances that here obtained, both clients of the Lilly lawyers, and that UC and Lilly shared a common legal interest in gaining sound patent rights to this technology, ***1390** which had been developed by UC and optioned and licensed by Lilly. UC also cites the fact that from the inception of the option agreement, Lilly's license rights had the potential to become and ultimately did become exclusive and that that fact gave Lilly and UC an identity of interest. Thus UC argues that its communications with the Lilly attorneys are subject to the attorney-client privilege, along with Lilly's work product on behalf of UC.

Genentech argues that UC and Lilly lacked the requisite common interest for the attorney-client privilege to attach to the communications between UC and the Lilly attorneys. Genentech also argues that UC was not a client of the Lilly in-house attorneys. Indeed, the Lilly attorneys testified that they considered Lilly, and not UC, to be their "client." However, the issue is not who employed the attorney, but whether the attorney was acting in a professional relationship to the person asserting the privilege. "The professional relationship for purposes of the privilege for attorney-client communications 'hinges upon the client's belief that he is consulting a lawyer in that capacity and his manifested intention to seek professional legal advice.'" Westinghouse Elec. Corp. v. Kerr-McGee Corp., 580 F.2d 1311, 1319 (7th Cir.), cert. denied, 439 U.S. 955, 99 S.Ct. 353, 58 L.Ed.2d 346 (1978) (quoting McCormick, Evidence § 88 at 179 (2d ed. 1972)).

The Lilly attorneys advised and consulted frequently with UC counsel on matters relating to UC's patents. It is not

disputed that the Lilly attorneys received confidential information from UC and gave legal advice to UC. However, Genentech argues that even if UC were deemed to be a "client" of the Lilly attorneys, Lilly and UC lacked a common legal interest because UC was the inventor/patentee and Lilly was an optionee and a potential licensee. As we have discussed, in order for the communications between UC and the Lilly attorneys to be protected by the attorney-client privilege, Lilly and UC as clients must share a common legal interest, or have a community of interest, with respect to the subject of the communications. The district court held that the community of interest standard required that "the nature of the interest be identical, not similar, and be legal, not solely commercial," citing Duplan Corp. v. Deering Milliken, Inc., 397 F.Supp. 1146, 1172 (D.S.C.1974). Although the district court recognized that it was imposing a stringent standard, it relied on United States v. Lawless, 709 F.2d 485, 487 (7th Cir.1983) for the proposition that the scope of the attorney-client privilege should be narrowly drawn.

Accepting that the scope of the attorney-client privilege is narrowly drawn in the Seventh Circuit,[2] we conclude that the legal interest between Lilly and UC was substantially identical because of the potentially and ultimately exclusive nature of the Lilly-UC license agreement. Both parties had the same interest in obtaining strong and enforceable patents. The district court erred in concluding that Lilly and UC did not have an identical legal interest in the '877 patent and its foreign counterparts because "a patentee and a nonexclusive licensee do not share identical legal interests." Lilly was more than a non-exclusive licensee, and shared the interest that UC would obtain valid and enforceable patents. UC is a university seeking valid and enforceable patents to support royalty income. Lilly is an industrial enterprise seeking valid and enforceable

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[2] For procedural matters that are not unique to patent issues, we apply the perceived law of the regional circuit. National Presto Indus., Inc. v. West Bend Co., 76 F.3d 1185, 1188 n. 2, 37 USPQ2d 1685, 1686 n. 2 (Fed.Cir.1996).

patents to support commercial activity. Valid and enforceable patents on the UC inventions are in the interest of both parties. See Duplan, 397 F.Supp. at 1172 ("The fact that there may be an overlap of a commercial and a legal interest for a third party does not negate the effect of the legal interest in establishing a community of interest.")

[7][8] Genentech also contends that the communications between UC and the Lilly attorneys are not covered by the privilege because they were not made in anticipation of litigation. It is well established that the attorney-client privilege is not limited to actions taken and advice obtained in the shadow of litigation. Persons seek legal advice ***1391** and assistance in order to meet legal requirements and to plan their conduct; such steps serve the public interest in achieving compliance with law and facilitating the administration of justice, and indeed may avert litigation. Upjohn Co. v. United States, 449 U.S. 383, 389, 101 S.Ct. 677, 682, 66 L.Ed.2d 584 (1981). When such pre- litigation advice and assistance serve a shared legal interest, the parties to that interest do not lose the privilege when litigation arises. See SCM Corp., 70 F.R.D. at 513 ("The privilege need not be limited to legal consultations between corporations in litigation situations, however. Corporations should be encouraged to seek legal advice in planning their affairs to avoid litigation as well as in pursuing it.") See generally Paul R. Rice, Attorney-Client Privilege in the United States § 1:13 (1993) (the attorney-client privilege in the United States is free of the "pending or in anticipation of litigation" limitation).

[9] The district court cited Edward Lowe Indus., Inc. v. Oil-Dri Corp. of America, 1995 WL 410979 (N.D.Ill. July 11, 1995), for its statement that "the patent prosecution process does not create a need" for the "common defense" privilege. The Edward Lowe court, however, held that it would apply the common interest doctrine to documents that "address either anticipated litigation or a joint effort to avoid litigation," id. at *2, and observed that Baxter Travenol Labs., supra, and SCM Corp., supra, are not inconsistent with this general rule. We agree. Consultation with counsel during patent

prosecution meets the criteria of compliance with law and meeting legal requirements, thereby reducing or avoiding litigation, and is within the scope of subject matter that is subject to the attorney-client privilege.

[10] We conclude that the joint client doctrine and the community of interest doctrine apply to and protect legal advice and communications between the patent applicant or patentee and attorneys of its optionee/licensee.

Accordingly, IT IS ORDERED THAT:

The writ of mandamus is granted. The communications for which discovery is sought are protected by the attorney-client privilege.

END OF DOCUMENT

## APPENDIX B

## UNITED STATES DISTRICT COURT
## SOUTHERN DISTRICT OF INDIANA
## INDIANAPOLIS DIVISION

| | | |
|---|---|---|
| GENENTECH, INC., | ) | |
| | ) | |
| Plaintiff, | ) | MDL DOCKET NO. 912 |
| | ) | |
| -vs- | ) | |
| | ) | |
| THE REGENTS OF THE UNIVERSITY OF CALIFORNIA, | ) | IP-90-1679-C-D/G |
| | ) | |
| | ) | |
| Defendant. | ) | |

**Entry Granting Genentech's Motion to Compel Testimony and to Overrule UC's Objections Based on the Community of Interest Doctrine**

This cause comes before the Court on Genentech's motion to overrule UC's objections based on the community of interest doctrine. For the following reasons, the motion is GRANTED.

### Background

The present action is one of six cases consolidated in this Court for pretrial proceedings by the Judicial Panel on Multidistrict Litigation. *See In re Recombinant DNA Technology Patent and Contract Litig.*, Docket No. 912 (J.P.M.L. Feb. 19, 1992), *aff'd, In re Regents of the Univ. of Cal.*, 964 F.2d 1128 (Fed. Cir. 1992); *In re Recombinant DNA Technology Patent and Contract Litig.*, Docket No. 912 (J.P.M.L. Oct. 1, 1993). The consolidated cases arose out of various research arrangements and license agreements among the Regents of the University of California UC), Genentech, Inc. (Genentech) and

Eli Lilly and Company (Lilly). The instant case is the only one of the consolidated actions remaining actively litigated.[1]

Presently, Genentech seeks to compel certain testimony of Lilly in-house attorneys Dr. Calvin Sparrow (Sparrow), Dr. Ron Levy (Levy) and Dr. Gerald Dahling (Dahling). Apparently, Genentech believes that such testimony will be relevant to its claims that UC's United States Patent Number 4,363,877 (the '877 patent) is invalid and unenforceable based on UC's alleged inequitable conduct. According to Genentech, any privilege that may have existed in the subject communications was waived when UC and Lilly shared the information. To the contrary, UC contends that the subject testimony is immunized from disclosure by way of the community of interest doctrine, which is an exception to the rule that waives privilege upon disclosure of protected information to a third party. Specifically, UC contends that the nature of the relationship between it and Lilly during the time period in issue prevents the sharing of information between the two entities from operating as a waiver of privilege. We provide relevant background information.

On April 19, 1978, UC filed with the United States Patent and Trademark Office (PTO) the patent application leading to the '877 patent. The research underlying this patent application had been funded by the Department of Health, Education and Welfare (HEW). Significantly, one condition of the governmental funding was that any patents arising from the research were to be licensed on a nonexclusive basis. On September 12, 1978, UC and Lilly entered into an option agreement, whereby Lilly obtained the exclusive right to acquire a license to use certain technology arising from UC's

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[1] For an explanation of the status of the other cases, see Entry Denying Genentech's Second Motion for Summary Judgment That the Certificate of Correction for United States Patent Number 4,363,877 Is Null and Void, That United States Patent Number 4,363,877 Is Unenforceable Due to Inequitable Conduct, and That UC's Other Claims Are Barred Under the Doctrine of Unclean Hands at 2 n.1, Cause Number IP-90-1679-C-D/G (S.D. Ind. March 13, 1996).

federal grants. The application for the '877 patent was included in this option agreement. The term of the agreement was three years from the date of the agreement or until Lilly's first commercial use of the technology. The option agreement provided that any license agreement granted under it would be subject to limitations imposed by the HEW.

On December 14, 1982, the PTO issued the '877 patent to UC. In 1987, UC applied to the HEW for a waiver of the non-exclusive provision tied to the governmental funding.[2] Because of a statutory amendment and certain executive orders, UC was granted the waiver. *See* Entry Granting in Part and Denying in Part Genentech's Motion for Leave to Further Amend Its Amended Complaint; Granting in Part and Denying in Part UC's Motion to Dismiss Counts II-VIII of Genentech's Amended Complaint; and Reinstating Genentech's § 1 Sherman Act Claim Against Lilly at 18-22, Cause Number IP-90-1679-C (S.D. Ind. Nov. 18, 1994). Finally, on March 27, 1989, Lilly and UC executed a license agreement in which Lilly became the exclusive licensee of the '877 patent. Under the agreement, Lilly was not obligated to grant any sublicenses. We turn to a discussion of the issue.

**Discussion**

Generally, disclosure of communications to a third party waives any privilege in those communications. *See United States v. Lawless*, 709 F.2d 485, 487 (7th Cir. 1983) (holding that transmittal of information to an attorney with the intent that the information will be shared with a third party destroys confidentiality). However, the community of interest doctrine can be invoked in limited circumstances to guard the privilege despite the fact that the subject communications have been transmitted to a third party.

In order for the community of interest doctrine to be applied, the subject communications already must be privileged. As recognized in *Edward Lowe Industries, Inc. v. Oil-Dri*

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[2] UC had applied for a waiver earlier, but such waiver had been denied.

*Corp. of Amer.*, 1995 WL 410979 (N.D. Ill. July 11, 1995) (citing *Allendale Mut. Ins. Co. v. Bull Data Sys.*, 152 F.R.D. 132, 140 (N.D. Ill. 1993), "the doctrine affords no independent shield from discovery." Moreover, the community of interest doctrine requires that the persons or entities involved in the communication exchange have an identical legal interest concerning the communication. *Duplan Corp. v. Deering Milliken, Inc.*, 397 F. Supp. 1146, 1172 (D.S.C. 1974). The *Duplan* court stated that

> [t]he key consideration is that the nature of the interest be identical, not similar, and be legal, not solely commercial.

*Duplan*, 397 F. Supp. at 1172.

Although some courts have expanded the community of interest doctrine to reach communications not meeting the stringent standard enunciated in *Duplan*, yet we are mindful of the Seventh Circuit's admonition that "[t]he scope of the privilege should be 'strictly confined within the narrowest possible limits.'" *United States v. Lawless*, 709 F.2d 485, 487 (7th Cir. 1983) (quoting 8 Wigmore, Evidence § 2291 (McNaughton rev. 1961) (further citations omitted). In view of this guidance, we adhere to the *Duplan* standard. *See Oak Indus., v. Zenith Indus.*, 1988 WL 79614 (N.D. Ill. July 27, 1988) (rejecting more liberal standard and determining that community of interest doctrine was inapplicable to party's disclosure of confidential information during business negotiations).

The present motion arises from the depositions of Sparrow, Levy and Dahling, who were in-house counsel at Lilly during the relevant time period. According to Genentech, UC counsel and representatives frequently discussed certain prior art -- which Genentech alleges is material to the '877 patent -- with Sparrow and Levy. Genentech's attempts to question Sparrow and Levy about UC's knowledge of the materiality of that prior art were met during deposition with UC's objections based on privilege. Moreover, on that same basis UC counsel prevented Genentech from securing certain information from

Dahling about his investigation into the source of the errors in the '877 patent as it originally issued. Genentech purports such information is necessary because UC's counsel alleges that she solely relied on Dahling's investigation in applying for a certificate of correction for the '877 patent. Genentech also seeks testimony from Dahling regarding his involvement in UC's quest for the certificate of correction -- a quest that Genentech contends led to inequitable conduct by UC.

UC asserts that the community of interest doctrine protects the subject communications. According to UC, it and Lilly had an identical legal interest in developing, prosecuting, and protecting patents arising from the work of UC researchers relating to human and animal growth hormone and insulin.

A thorough examination of the record leads us to conclude that UC cannot invoke the community of interest doctrine to protect the subject communications prior to the 1989 license agreement between UC and Lilly. Specifically, the Court is convinced that the relationship between Lilly and UC created by the option agreement was not one in which UC and Lilly's legal interests were identical.

First, both parties knew when they entered the option agreement in 1978 that any patents resulting from UC's research financed through federal grants was to be licensed on a nonexclusive basis. Obviously, a patentee and a nonexclusive licensee do not share identical legal interests. Until the HEW granted UC's 1987 application for a waiver of the nonexclusive licensing provision regarding the '877 patent, Lilly had only an option to license the subject technology on a nonexclusive basis. Through such arrangement, the interests of Lilly and UC appear even less similar than those interests between a patentee and a nonexclusive licensee.

Moreover, the option agreement provided that Lilly could walk away from the option agreement at any time. Lilly only was obligated, in the context of foreign patent applications, to notify UC in writing of its intent to abandon any application 90 days before such abandonment. Because Lilly was underwriting the costs of preparing and prosecuting foreign patent

applications, this notification was necessary to permit UC or the HEW to carry on the prosecution process, if either so desired. The option agreement did not suggest, in the event a patent issued from the PTO, that Lilly would have any responsibility for filing suit against alleged infringers.

Rather, it appears that, in the context of the subject option agreement, UC and Lilly's shared interests were only proprietary. Lilly had financing and expertise in prosecuting foreign patents. UC had technology. In exchange for Lilly's financial backing and expertise, UC extended an option to Lilly for an exclusive license to any resulting patents, subject to the limitations the HEW might impose on the United States patents. (As we stated earlier, the parties were aware of the HEW's nonexclusive licensing stipulation at the time they entered the option agreement.)

Previously, we noted that the *Duplan* court required the common interest between the two entities sharing the information in issue be legal. Generally, the common legal interest must arise out of impending or anticipated litigation or a joint effort to avoid litigation. *Edward Lowe*, 1995 WL 410979, at *3 (N.D. Ill. July 11, 1995) (citing *Medcom Holding Co. v. Baxter Travenol Labs.*, 689 F. Supp. 841, 844 (N.D. Ill. 1988); *Allendale Mutual Ins. Co.*, 152 F.R.D. at 141). The *Edward Lowe* court reasoned that such a requirement "ensures that the common legal interest 'arises out of the need for a common defense, as opposed merely to a common problem.'" *Id.* (quoting *Medcom,* 689 F. Supp. at 845).

In the instant case, we are convinced that the UC-Lilly relationship arising from the option agreement created no need for a common defense. The entities were prosecuting patents, and at that point, apparently were bound only by the prospects of financial gain and heightened reputation. We are persuaded that the patent prosecution process does not create a need for the type of "common defense" discussed in *Edward Lowe*. Unquestionably, once a patent is issued, defending its noninfringement, validity and enforceability are legal matters, the (potential) litigation of which might justify invocation of the

community of interest doctrine in limited circumstances. In the present case, however, we merely are faced with an agreement encompassing the prosecution of patents and a *potential* licensing arrangement. *See Oak* Indus., 1988 WL 79614 (N.D. Ill. July 27, 1988) (holding that defendant shared no common protected interest with the potential buyers of its consumer electronics group and, hence, disclosures were not protected). This arrangement does not met the standard enunciated in *Duplan*.

For these reasons, we find that UC may not invoke the community of interest doctrine to protect communications between it and Lilly between 1978 and 1989.[3] UC must produce to Genentech unredacted versions of the depositions of Levy and Sparrow.[4] Moreover, UC must afford Genentech the opportunity to continue the depositions of Levy, Sparrow and Dahling, as well as other Lilly and UC witnesses whose testimony was incomplete by reason of UC's improper objections based on the community of interest doctrine.

Dated this 2nd day of July, 1996.

/s/ S. Hugh Dillin

S. Hugh Dillin, Judge

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[3] It is unclear whether Genentech seeks discovery of communications between UC and Lilly after the date of their 1989 license agreement. If so, additional briefing targeting communications after the UC-Lilly licensing arrangement would be required before the Court would render a decision regarding discovery of those communications.

[4] In an effort to expedite discovery and to prepare another of these consolidated cases for trial, Magistrate Judge John Godich ruled on September 20, 1994, that Genentech temporarily would be excluded from portions of depositions concerning matters in which UC claimed that it and Lilly shared a community of interest. Magistrate Judge Godich also ruled that Genentech would receive redacted versions of those deposition transcripts. This Entry addresses the unredacted versions of such transcripts.

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